

income-eligible households because of turnover among assisted renters. As the number of eligible households continued to grow over time, however, the proportion of eligible households served would decline, exacerbating the existing uneven treatment of households in similar economic circumstances and increasing the need to ration aid.

Gradually Expand the Number of Housing Assistance Commitments

If the Congress chose to continue to expand program coverage, various benchmarks could be used to determine how many net additional households to serve. For example, the number of additional commitments funded could be just sufficient to keep constant the proportion of eligible households that are assisted. Alternatively, current policy could be continued--that is, funding could be provided at the 1989 appropriation level adjusted for inflation. The budgetary effects of these two options are shown in the bottom panel of Table 14.

Keep Constant the Proportion of Eligible Households Served. Just enough additional commitments could be provided to keep the share of the eligible population served at current levels. This approach would assist each year around 67,000 new households under HUD programs. Relative to current policy, outlays would decrease by \$50 million in 1990 and by \$1.3 billion over the 1990-1993 period.

Continue Expansion Under Current Policy. Alternatively, appropriations of budget authority could be continued at 1989 levels, adjusted for inflation. If program guidelines remained the same, this amount would enable HUD to serve annually about 94,000 additional households. For fiscal year 1990, this option would require \$9.9 billion in new budget authority for HUD programs, including funds for public housing operating subsidies. Since all options are compared with a continuation of current policy (as reflected in the CBO November 1988 baseline), this approach would have no budgetary impact.

The first option (serving the same proportion of eligible households) would be less costly than continuing to expand coverage under current policy, but the uneven treatment of households would last indefinitely. The second option would slowly expand the proportion of eligible households served, eventually (over the very long term) becoming essentially the same as an entitlement program. Moreover,

the budgetary impact would be felt gradually rather than immediately. Uneven treatment of poor households and the need for rationing aid would persist for many years, however. Both options would increase federal spending--though not relative to current policy--thereby raising the deficit unless other offsetting changes to spending programs or tax provisions were also made.

Make Housing Assistance an Entitlement

Finally, housing aid could be made into an entitlement for all households that qualify. In contemplating the design of such a program, the Congress would be faced with all the basic issues discussed in this chapter--trade-offs among program costs, the number of households that would be eligible for such aid, the share of income that households would contribute, and the type of assistance that would be made available. Federal outlays would vary with the program design and would be increased by such factors as including more households in the eligible population, higher participation rates, lower household contributions toward rent, and a more expensive program mix.

Estimating the cost of any type of entitlement program is complicated because the cost would depend on household participation rates, which are difficult to predict. Experience with EHAP has shown that participation in a voucher-type entitlement program, for example, depends on several factors, including households' characteristics, the size of the subsidy, the program's housing standards, and the effort made to inform eligible households that aid is available. That experiment suggests that, once fully phased in, an entitlement program for all renter households classified as very-low-income would aid about 58 percent of all such households. Participation rates by various types of households would vary substantially, however. For example, about 80 percent of eligible elderly renters living alone and of eligible single-parent families with children would probably participate, but only about 40 percent of nonelderly couples without children would.²¹

21. These estimated participation rates are derived from Jill Khadduri and Raymond J. Struyck, "Housing Vouchers for the Poor," *Journal of Policy Analysis and Management*, vol. 1, no. 2 (1982), pp. 196-208, and from data provided by the authors.

This section presents various illustrative options for making housing assistance an entitlement. Cost estimates for these options are based on an eventual overall participation rate of 58 percent. Given the uncertainty associated with actual participation rates, however, the ultimate costs might be appreciably higher or lower than these estimates.

All of the options presented below would eliminate the current lottery nature of housing assistance programs; that is, they would reduce the uneven treatment of households in similar economic situations and provide the opportunity for all eligible households to receive federal housing assistance. These options also would eliminate the need for PHAs to ration aid among many applicants. On the other hand, to the extent that participation rates fell short of 100 percent, some disparities among households with similar income would continue. Furthermore, as is the case with any entitlement program, future federal outlays for housing assistance would become more difficult to control, because they would require changes in authorizing legislation.

Maintain Current Income-Eligibility Limits and Household Contributions; Outlays Increase. The Congress could make housing assistance available to all households that qualify under current income-eligibility requirements without changing household contributions. If households participated at the rates described above, 2.2 million additional commitments would have to be authorized now, and some each year hereafter, to accommodate growth in the eligible population. If the program mix stipulated by the 1989 appropriation were used for assisting these additional households, this option would require in 1990 an increase of \$109 billion in budget authority over current policy.

Given the expense associated with a large-scale program that involves new construction, most debates on structuring housing entitlement programs have centered around aiding additional households through existing-housing programs. If vouchers were used to provide all additional aid, an entitlement program would require an increase of \$63 billion in budget authority in 1990, compared with current policy. It would add, when fully phased in, about \$11.1 billion per year (in 1990 dollars) to current outlays to serve all very-low-income renters estimated to participate (see first panel of Box 3).

BOX 3
SELECTED EFFECTS OF ILLUSTRATIVE VOUCHER
ENTITLEMENT PROGRAMS FOR RENTERS
ELIGIBLE FOR ASSISTANCE IN 1990

Maintain Current Income-Eligibility Limits
and Household Contributions; Outlays Increase

Income-Eligibility Limit	50 percent of area median income
Household Contribution	30 percent of adjusted income
New Commitments Funded	2.2 million
Increase in Outlays	\$11.1 billion
Total Eventual Participants	7.1 million

Maintain Outlays at Current Policy Levels;
Change Income-Eligibility Limits, Household
Contributions, or Both

Reduce Income-Eligibility Limits;
Maintain Current Household Contributions

Income-Eligibility Limit	33 percent of area median income
Household Contribution	30 percent of adjusted income
New Commitments Funded	0
Increase in Outlays	\$0
Total Eventual Participants	4.9 million

Maintain Current Income-Eligibility Limits;
Increase Household Contributions

Income-Eligibility Limit	50 percent of area median income
Household Contribution	54 percent of adjusted income
New Commitments Funded	0
Increase in Outlays	\$0
Total Eventual Participants	7.1 million

Reduce Income-Eligibility Limits;
Increase Household Contributions

Income-Eligibility Limit	40 percent of area median income
Household Contribution	42 percent of adjusted income
New Commitments Funded	0
Increase in Outlays	\$0
Total Eventual Participants	5.8 million

(Continued)

**Increase Outlays by 20 Percent Above Current Policy Levels;
Change Income-Eligibility Limits, Household
Contributions, or Both**

**Reduce Income-Eligibility Limits;
Maintain Current Household Contributions**

Income-Eligibility Limit	38 percent of area median income
Household Contribution	30 percent of adjusted income
New Commitments Funded	627,000
Increase in Outlays	\$3.1 billion
Total Eventual Participants	5.5 million

**Maintain Current Income-Eligibility Limits;
Increase Household Contributions**

Income-Eligibility Limit	50 percent of area median income
Household Contribution	47 percent of adjusted income
New Commitments Funded	627,000
Increase in Outlays	\$3.1 billion
Total Eventual Participants	7.1 million

**Reduce Income-Eligibility Limits;
Increase Household Contributions**

Income-Eligibility Limit	40 percent of area median income
Household Contribution	34 percent of adjusted income
New Commitments Funded	627,000
Increase in Outlays	\$3.1 billion
Total Eventual Participants	5.8 million

SOURCE: Congressional Budget Office.

NOTE: For illustrative purposes, these estimates assume that the various types of entitlement programs would be fully phased in as of 1990; that is, all newly funded commitments would be received for the entire year, and all current outstanding commitments would be immediately available only to the group of households meeting the eligibility criteria. In reality, however, such programs could not be fully phased in for a number of years. See text for additional details on each option.

This approach would be less expensive than an entitlement program using the current policy program mix for assisting additional households. As previously noted, however, expanding program coverage through vouchers might present problems in areas with a shortage of units in the existing-housing stock that can meet the needs of certain subgroups of the eligible population.

Although using vouchers in an entitlement program would keep the cost to a minimum, federal expenditures would greatly increase. The remainder of this section presents several illustrative options that would cost less. Budgetary effects and program guidelines for these options are shown in the second and third panels of Box 3.

Maintain Outlays at Current Policy Levels; Change Income-Eligibility Limits, Household Contributions, or Both. The cost of providing housing assistance as an entitlement could be limited either by lowering the income-eligibility level, which would decrease the number of likely participants, or by reducing the level of subsidy provided to each participant, or by a combination of these two approaches. Again, for any given level of outlays, the basic trade-off is between helping more households with higher income but forcing all recipients to pay more, and helping fewer households with the lowest income but allowing them to spend less of their income for housing.

Three illustrative options that would keep outlays constant at current policy levels are shown in the second panel of Box 3. The first option would do so by reducing the income-eligibility cutoff to 33 percent of area median income, while maintaining current policy with respect to households' out-of-pocket expenditures and FMRs.²² Alternatively, households' contributions could be increased to 54 percent of adjusted income, while keeping current income-eligibility conditions the same. The third option--a combination approach--would reduce the income-eligibility cutoff to 40 percent of area median income, while increasing households' contributions to 42 percent of adjusted income. The first approach would not change the number of partic-

22. Lowering FMRs would also reduce the level of subsidies. This option is not considered here, because raising households' contributions could be implemented for all current and future participants, while lowering the FMRs would only affect new participants in the existing-housing programs. Thus, the latter approach would result in uneven benefits for assisted households, contrary to a major goal of entitlement programs.

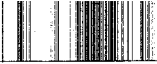
ipants from current levels, while the second and third approaches would increase them by about 45 percent and 18 percent, respectively.

Increase Outlays by 20 Percent Above Current Policy Levels; Change Income-Eligibility Limits, Household Contributions, or Both. The final set of illustrative options assumes that outlays would be increased by 20 percent--or \$3.1 billion--relative to the current policy level (see third panel of Box 3). This spending level would fund about 627,000 additional vouchers and would thus reduce the impact on current participants, compared with the three options that would keep outlays at current policy levels. In particular, with the increased federal expenditures, an entitlement program could be implemented either by reducing the income-eligibility limit to 38 percent of area median income or by raising household contributions to 47 percent of adjusted income. An example of a combination of both approaches would be to increase household contributions to 34 percent and reduce income limits to 40 percent of area median income.



APPENDIXES





APPENDIX A

OVERLAPPING HOUSING PROBLEMS,

BY INCOME, TENURE, AND

HOUSEHOLD TYPE, 1985

This appendix presents tables for various groups of households on the extent of overlap of housing problems--similar to Table 6 in Chapter II, which concerns very-low-income renters. Tables A-1 and A-2 pertain to low- and higher-income renters, respectively; and Tables A-3 through A-5 pertain to homeowners in the three income categories.

TABLE A-1. LOW-INCOME RENTERS WITH MULTIPLE HOUSING PROBLEMS, 1985

Housing Condition	Elderly, No Children	Nonelderly, No Children	Households With 1 or 2 Children	Households With 3 or More Children	All
Thousands of Households					
No Problems	390	1,220	920	160	2,680
Costly, but Physi- cally Adequate	430	960	670	120	2,190
Costly and Physi- cally Inadequate					
Substandard	20	130	100	10	260
Crowded	a	10	50	40	110
Both	<u>a</u>	<u>10</u>	<u>a</u>	<u>10</u>	<u>30</u>
Subtotal	30	160	150	70	400
Physically Inadequate, but Not Costly					
Substandard	50	220	160	40	460
Crowded	a	30	150	130	310
Both	<u>a</u>	<u>10</u>	<u>50</u>	<u>30</u>	<u>100</u>
Subtotal	50	260	360	200	870
Total	900	2,600	2,100	550	6,140
As Percentage of Households in Demographic Category					
No Problems	43	47	44	29	44
Costly, but Physi- cally Adequate	48	37	32	22	36
Costly and Physi- cally Inadequate					
Substandard	3	5	5	2	4
Crowded	a	a	2	8	2
Both	<u>a</u>	<u>1</u>	<u>a</u>	<u>2</u>	<u>a</u>
Subtotal	3	6	7	12	7
Physically Inadequate, but Not Costly					
Substandard	5	8	8	7	8
Crowded	a	1	7	24	5
Both	<u>a</u>	<u>1</u>	<u>3</u>	<u>5</u>	<u>2</u>
Subtotal	6	10	17	36	14
Total	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Data exclude renters who paid no cash rent and renters for whom housing cost-to-income ratios were not computed. Housing conditions are defined in Box 1 in Chapter II. Household types are defined in Box 2 in Chapter II.

A four-person household is classified as low-income if its income ranges from 51 percent to 80 percent of the area's median income. For a one-person household, the range for low-income designation is between 36 percent and 56 percent, while for an eight-person household the range is between 67 percent and 100 percent.

a. Fewer than 5,000 households or less than 0.5 percent.

TABLE A-2. HIGHER-INCOME RENTERS WITH MULTIPLE HOUSING PROBLEMS, 1985

Housing Condition	Elderly, No Children	Nonelderly, No Children	Households With 1 or 2 Children	Households With 3 or More Children	All
Thousands of Households					
No Problems	700	6,700	2,400	280	10,070
Costly, but Physi- cally Adequate	150	520	250	40	950
Costly and Physi- cally Inadequate					
Substandard	10	40	10	a	60
Crowded	a	a	10	a	10
Both	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>
Subtotal	10	40	20	a	80
Physically Inadequate, but Not Costly					
Substandard	60	550	220	20	870
Crowded	10	80	150	110	350
Both	<u>a</u>	<u>20</u>	<u>40</u>	<u>20</u>	<u>70</u>
Subtotal	70	650	410	150	1,280
Total	940	7,920	3,070	470	12,390
As Percentage of Households in Demographic Category					
No Problems	75	85	78	59	81
Costly, but Physi- cally Adequate	16	7	8	8	8
Costly and Physi- cally Inadequate					
Substandard	1	1	a	a	1
Crowded	a	a	a	a	a
Both	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>
Subtotal	1	1	1	a	1
Physically Inadequate, but Not Costly					
Substandard	7	7	7	5	7
Crowded	1	1	5	24	3
Both	<u>a</u>	<u>a</u>	<u>1</u>	<u>4</u>	<u>1</u>
Subtotal	8	8	13	33	10
Total	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Data exclude renters who paid no cash rent and renters for whom housing cost-to-income ratios were not computed. Housing conditions are defined in Box 1 in Chapter II. Household types are defined in Box 2 in Chapter II.

Higher-income households are all those not classified as low- or very-low-income in this study.

a. Fewer than 5,000 households or less than 0.5 percent.

TABLE A-3. VERY-LOW-INCOME HOMEOWNERS WITH MULTIPLE HOUSING PROBLEMS, 1985

Housing Condition	Elderly, No Children	Nonelderly, No Children	Households With 1 or 2 Children	Households With 3 or More Children	All
Thousands of Households					
No Problems	2,460	440	450	110	3,450
Costly, but Physi- cally Adequate	2,660	890	790	290	4,630
Costly and Physi- cally Inadequate					
Substandard	160	60	70	30	330
Crowded	a	a	10	80	90
Both	a	a	a	10	20
Subtotal	160	60	80	120	430
Physically Inadequate, but Not Costly					
Substandard	200	60	70	10	350
Crowded	10	a	20	50	80
Both	a	a	a	30	40
Subtotal	210	60	90	100	470
Total	5,490	1,450	1,410	620	8,980
As Percentage of Households in Demographic Category					
No Problems	45	30	31	18	38
Costly, but Physi- cally Adequate	48	61	56	46	52
Costly and Physi- cally Inadequate					
Substandard	3	4	5	5	4
Crowded	a	a	1	12	1
Both	a	a	a	2	a
Subtotal	3	4	6	19	5
Physically Inadequate, but Not Costly					
Substandard	4	4	5	2	4
Crowded	a	a	1	9	1
Both	a	a	a	5	a
Subtotal	4	4	7	16	5
Total	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Data exclude homeowners for whom housing cost-to-income ratios were not computed. Housing conditions are defined in Box 1 in Chapter II. Household types are defined in Box 2 in Chapter II.

A four-person household is classified as very-low-income if its income is less than or equal to 50 percent of the area's median income. Threshold incomes are adjusted for family size. For example, for a one-person household, the threshold is 35 percent, and for an eight-person household it is 66 percent.

a. Fewer than 5,000 households or less than 0.5 percent.

TABLE A-4. LOW-INCOME HOMEOWNERS WITH MULTIPLE HOUSING PROBLEMS, 1985

Housing Condition	Elderly, No Children	Nonelderly, No Children	Households With 1 or 2 Children	Households With 3 or More Children	All
Thousands of Households					
No Problems	2,870	1,060	1,290	310	5,540
Costly, but Physi- cally Adequate	450	430	600	190	1,670
Costly and Physi- cally Inadequate					
Substandard	10	20	20	10	60
Crowded	a	a	10	40	50
Both	a	a	a	a	a
Subtotal	10	20	30	50	110
Physically Inadequate, but Not Costly					
Substandard	100	60	90	30	280
Crowded	a	a	40	90	120
Both	a	a	10	20	20
Subtotal	100	60	140	130	420
Total	3,440	1,580	2,050	680	7,740
As Percentage of Households in Demographic Category					
No Problems	84	68	63	45	72
Costly, but Physi- cally Adequate	13	28	29	28	22
Costly and Physi- cally Inadequate					
Substandard	a	1	1	1	1
Crowded	a	a	a	6	1
Both	a	a	a	a	a
Subtotal	a	1	1	8	1
Physically Inadequate, but Not Costly					
Substandard	3	4	5	4	4
Crowded	a	a	2	13	2
Both	a	a	a	2	a
Subtotal	3	4	7	19	5
Total	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Data exclude homeowners for whom housing cost-to-income ratios were not computed. Housing conditions are defined in Box 1 in Chapter II. Household types are defined in Box 2 in Chapter II.

A four-person household is classified as low-income if its income ranges from 51 percent to 80 percent of the area's median income. For a one-person household, the range for low-income designation is between 36 percent and 56 percent, while for an eight-person household the range is between 67 percent and 100 percent.

a. Fewer than 5,000 households or less than 0.5 percent.

TABLE A-5. HIGHER-INCOME HOMEOWNERS WITH MULTIPLE HOUSING PROBLEMS, 1985

Housing Condition	Elderly, No Children	Nonelderly, No Children	Households With 1 or 2 Children	Households With 3 or More Children	All
Thousands of Households					
No Problems	6,180	11,560	10,620	1,930	30,290
Costly, but Physi- cally Adequate	220	1,100	1,240	330	2,900
Costly and Physi- cally Inadequate					
Substandard	10	40	40	10	90
Crowded	a	a	a	20	20
Both	a	a	a	a	a
Subtotal	10	40	40	30	120
Physically Inadequate, but Not Costly					
Substandard	140	350	250	70	800
Crowded	a	20	110	220	360
Both	a	a	20	20	30
Subtotal	140	370	380	310	1,200
Total	6,540	13,070	12,280	2,600	34,500
As Percentage of Households in Demographic Category					
No Problems	94	88	87	74	88
Costly, but Physi- cally Adequate	3	8	10	13	8
Costly and Physi- cally Inadequate					
Substandard	a	a	a	a	a
Crowded	a	a	a	1	a
Both	a	a	a	a	a
Subtotal	a	a	a	1	a
Physically Inadequate, but Not Costly					
Substandard	2	3	2	3	2
Crowded	a	a	1	9	1
Both	a	a	a	1	a
Subtotal	2	3	3	12	3
Total	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations of the 1985 American Housing Survey conducted by the Bureau of the Census for the Department of Housing and Urban Development.

NOTE: Data exclude homeowners for whom housing cost-to-income ratios were not computed. Housing conditions are defined in Box 1 in Chapter II. Household types are defined in Box 2 in Chapter II.

Higher-income households are all those not classified as low- or very-low-income in this study.

a. Fewer than 5,000 households or less than 0.5 percent.

APPENDIX B

TRANSFERRING CONTROL TO STATE AND LOCAL GOVERNMENTS THROUGH BLOCK GRANTS

Some or all control over housing policy decisions could be transferred from the federal government to state and local governments by providing some or all housing assistance through block grants. This general approach has been actively considered at various times during the past 15 years.¹ More recently, the National Housing Task Force--organized in 1987 as part of a Congressional effort to undertake a comprehensive review of housing policy--included as its cornerstone recommendation the creation of a "Housing Opportunity Program" (HOP), which would provide federal funds to state and local governments to encourage state and local initiatives for developing, renovating, and conserving low-income housing.²

Block grants could be distributed, for example, in a way similar to that used now for the Community Development Block Grant (CDBG) program--that is, formula entitlements for large units of local governments such as metropolitan cities and urban counties, with states receiving funds based on a formula for distribution to nonentitled areas. Moreover, grants could be provided with a requirement that state and local governments match some or all federal funds with their own funds, as suggested in the HOP proposal.

An advantage of a block grant approach would be that local decisionmakers are presumably in a better position than the federal government to know their local housing needs and hence to develop cost-effective strategies to address those needs. While the prescriptive nature of many of the current housing programs may limit their usefulness in some areas, block grants would provide flexibility to

-
1. For an overview of options considered in the past and their implications, see, for example, Andre Shashaty, "The Reagan Housing Block Grant Program: How It Might Work," *Housing and Development Reporter* (December 8, 1980), pp. 565-568. Also see Congressional Budget Office, *Federal Housing Assistance: Alternative Approaches* (May 1982).
 2. See National Housing Task Force, *A Decent Place to Live* (Washington D.C.: National Housing Task Force, March 1988).

tailor aid to local situations. For example, in tight inner-city markets, neither vouchers nor the new construction of housing projects might work, but government acquisition of privately owned housing projects might be effective. Cities experiencing rapid population growth might need different approaches from cities that are losing population. The limited availability of comparable data on localities points up the difficulty of making detailed decisions at the national level.

Arguments against using block grants focus on the potential divergence between local and national policy goals and concerns that much of the assistance might go to households with somewhat higher incomes among the eligible population. In addition, some argue that block grants would be difficult to use for the production of new lower-income housing, because the level of funds received by communities would generally be too small--particularly in small communities--to make the long-term commitments typically necessary for such endeavors and because many local governments lack expertise in housing development. In other words, the block grant approach would, in effect, be a decision to use existing housing almost exclusively.

There are also some constraints on the speed with which expenditures for current housing programs could be transformed into block grants.³ Outlays for much of the current pool of assisted households could be scaled down only gradually because the federal government has contractual obligations with many project owners to provide subsidies for specified lengths of time. Operating subsidies for public housing, which are appropriated annually, and federal expenditures for household-based subsidies could presumably be folded immediately into the block grant entitlements, with the local governments deciding whether and how to change or to phase out these forms of housing assistance. Moreover, any new assistance that would have been funded through current programs could be diverted to block grants immediately.

3. The HOP approach would be in addition to most current programs rather than in lieu of them.